

Process for Sponsors to Apply for an HCD Loan Interest Rate Reduction

Under AB 2562 (HSC Section 50406.7(a))

HCD will accept applications for a loan interest rate reduction after the TCAC tax credit reservation has been executed and prior to either construction loan closing or perm loan closing. The process to apply for a loan interest rate reduction from HCD involves:

- Contacting your assigned HCD Loan Closing Section representative and/or their manager to notify them of your intention.
- The assigned HCD rep will request submission of documentation in support of the interest rate reduction/loan modification request which will include, but not be limited to the following items:
 - 1) A copy of the HCD loan award letter.
 - 2) The executed TCAC reservation letter.
 - 3) Either of the following:
 - a. A tax professional's financial analysis executed by Sponsor, the investor and their tax professional that includes a true debt test analysis to document that the loan at 3% simple interest is not eligible to be treated as debt and an analysis of the reduced loan interest rate to the nearest .125%, but not less than .42%, that is required to meet the true debt test.
 - b. A tax professional's financial analysis executed by Sponsor, investor, and their tax professional that includes a capital account analysis to document that a 3% simple interest rate will result in a negative capital account and an analysis of the reduced loan interest rate to the nearest .125%, but not less than .42%, that will allow for a positive capital account.
 - 4) A description of how a change in the interest rate will increase the feasibility of the project.
 - 5) A description of how a change in the interest rate will ensure long term affordability for the residents.
 - 6) The "Tax Professional" can be either a California licensed CPA or Tax Attorney that is under contract to the Sponsor, and their California professional license number must be included in the signature block of the application.